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# ftc consumer feature

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## Getting to the Bottom of Pyramid Schemes

For an Akron, Ohio, man, the lure had been almost too tempting: the opportunity to join a program in which he'd make money based not only on his own sales, but also on those of the people he recruited into the program.

Employees at the company enthusiastically repeated the claims on its website. Participants, the man said he was told, "could make outrageous amounts of money for investing just \$65 and getting others to do the same."

But as he learned more details of the program, his doubts mounted. What troubled him most was that he couldn't get anyone to clearly explain what product or service he'd be selling. At first, it appeared to be cable television service. Then, it was described as "some kind of power line technology" that the man said he realized "doesn't really exist."

In truth, the program had no product to offer. Its participants made money by recruiting distributors – not by selling goods or services to consumers.

"It seems that you get nothing for your money except the right to recruit other people and make money off of them when they put their money in," the man recently told the Federal Trade Commission. "And if you do not recruit anyone, you get nothing for your money."

Unfortunately, many other consumers don't see through pyramid schemes until they've invested their money and time. Enticed by promises of quick or easy profits, they eventually lose their entire investment, and some even go into debt.

Many people join pyramids in the belief that they're actually joining a multilevel marketing plan. Legitimate multilevel marketing plans offer a product or service that's sold to the public through a tiered network of distributors.

However, many multilevel marketing plans are actually pyramids. If they offer a product or service, it's only to make the program look legitimate. And if any sales are made, they're generally only to new distributors — not to the public-at-large.

"In pyramids, the emphasis is on recruitment," says FTC attorney James Kohm, "and most, if not all, of the sales are to distributors."

Participants in pyramid schemes often end up paying far more than their initial investment. A Milford, Conn., man, for example, found himself \$75,000 in the hole after paying to attend sales meetings, buying more than \$10,000 in products, setting up an office and running advertisements to recruit prospects.

A Denver man lured into the same pyramid scheme said that in addition to his initial \$5,000 investment, he spent another \$15,000 on sales products and marketing aids, and attending the company's training classes.

Not everyone in a pyramid scheme loses money. Those at the "top" of the pyramid – generally the people who started the scam — often make a lot of money from the "downline" of distributors they recruit into the program. Their testimonials often are touted in ads designed to lure new investors into the program.

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“The problem with pyramids,” says Kohm, “is that the vast majority of participants must lose money to pay for the rewards of a lucky few. Most people end up with nothing to show for their investments except the expensive products or other marketing materials they’re pressured to buy.”

If you are considering buying into a multilevel marketing plan, the FTC says to consider these tips:

- ◆ Avoid any plan that includes commissions for recruiting distributors, or claims that you will make money through the continued growth of your “downline.”
- ◆ Beware of plans that ask new distributors to buy expensive inventory or establish a minimum monthly sales quota.
- ◆ Avoid plans that claim to sell “miracle” products or promise enormous earnings. Ask the promoter to substantiate all claims.
- ◆ Evaluate the product or service to determine if there’s a market for it, and if it’s competitively priced.
- ◆ Beware of testimonials from people who claim to have earned large sums through the program. They may be “shills” paid by the program’s promoters.
- ◆ Resist pressure to buy in. Take your time to think over your decision and your investment. Discuss it with a friend, accountant or lawyer.

Before signing up for any program, Kohm recommends calling the Better Business Bureau and state Attorney General where you live and where the company is based to see if there’s a history of complaints against the organization. While a complaint record may indicate questionable business practices, he reminds consumers that a lack of complaints doesn’t necessarily mean that the program is legitimate.

But Kohm says the best way to operate when evaluating a multilevel marketing program is to be leery of any plan that makes claims that seem too good to be true.

“Even if you’re considering joining a solid multilevel marketing program offering a legitimate product or service at a competitive price,” he says, “you’ll need to invest sweat equity as well as dollars for your investment to pay off.”

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free, **1-877-FTC-HELP** (1-877-382-4357), or use the complaint form at [www.ftc.gov](http://www.ftc.gov). The FTC enters Internet, telemarketing, and other fraud-related complaints into **Consumer Sentinel**, a secure, online database available to hundreds of civil and criminal law enforcement agencies worldwide.

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